"Anybody who safeguards resources, deserves recognition"

HQ USANATO's Management Control Process

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http://www.usanato.army.mil/html/mcp.html

“This Administration is dedicated to ensuring that the resources entrusted to the federal government are well managed and wisely used. We owe that to the American people.”

President George W. Bush

Purpose of the Army's MCP

- **Process designed to ensure:**
  - **Programs operate as intended**
  - **Deficiencies are identified & reported**
  - **Timely corrective action is taken**
- **Process promotes these goals through:**
  - **Periodic evaluations of critical controls**
  - **Full disclosure of detected deficiencies**

Eric K. Shinseki
General, United States Army
Chief of Staff

Thomas E. White
Secretary of the Army

Why MCP?

- Required by Public Law (Integrity Act)
- Regulatory requirement:
  - OMB Circular 123-A
  - DoD Directive 5010.38
  - AR 11-2, Management Control
  - GAO Standards for Internal Control
- Management's responsibility for implementing & evaluating the process
- Should be inherent in everyday operation

No Army activity or program is exempt from these requirements

Internal Control Defined

- Internal control comprises the plans, methods, and procedures used to meet mission goals and objectives
- Internal control promotes:
  - Protection of resources
  - Effectiveness & efficiency of operations
  - Reliability of financial reporting
  - Compliance with laws and regulations

Army Management Controls = GAO Internal Control

GAO Concept of Internal Control

- A continuous built-in component of operations
- Effected by people
- Provides "reasonable", not "absolute" assurance

  Management should design and implement internal control based on the related costs and benefits

GAO Standards for Internal Control

- Control Environment
- Risk Management
- Control Activities
- Information & Communications
- Monitoring

These standards define the minimum level of quality acceptable for internal control

GAO Standards for Internal Control

- Define minimum level of quality acceptable for Internal Control
- Apply to all aspects of your operation:
  - Programmatic
  - Financial
  - Compliance

GAO Standards for Internal Control

Control Environment

Management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward management control and conscientious management.

GAO Standards for Internal Control

Examples of Control Environment:

- Supportive attitude
- Integrity and good ethics
- Good human capital policies
- Competent personnel
- Supervision

GAO Standards for Internal Control

Risk Assessment

Management control should provide for an assessment of the risks the agency faces from both external and internal sources.

GAO Standards for Internal Control

Examples of Risk Assessment:

- **Qualitative and quantitative ranking activities**
- **Management conferences**
- **Forecasting/strategic planning**
- **Consideration of audit findings**

GAO Standards for Internal Control

Control Activities

Management control activities help ensure that management's directives are carried out. Activities should be effective and efficient in accomplishing the agency's control objectives.

GAO Standards for Internal Control

Examples of Monitoring:

- Top level reviews of actual performance
- Management of human capital
- Physical control over vulnerable assets
- Segregation of duties
- Proper execution of transactions & events
- Accurate recording of transactions & events
- Access restrictions to & accountability for resources and records
- Controls over information systems & data processing

GAO Standards for Internal Control

Information & Communications

Information should be recorded and communicated to management and others within the entity who need it and, in a form, and within a time frame that enables them to carry out their management control and other responsibilities.

GAO Standards for Internal Control

Examples of Information & Communications:

- **Relevant, reliable, and timely communications**
- **Operational and financial data**
- **Effective flow of information internally and externally**

GAO Standards for Internal Control

Monitoring

Management control monitoring should assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved.

GAO Standards for Internal Control

Examples of Monitoring:

- **Promptly evaluate findings from audits and other reviews**
- **Determine proper actions in response to findings**
- **Complete all actions within established time frames**

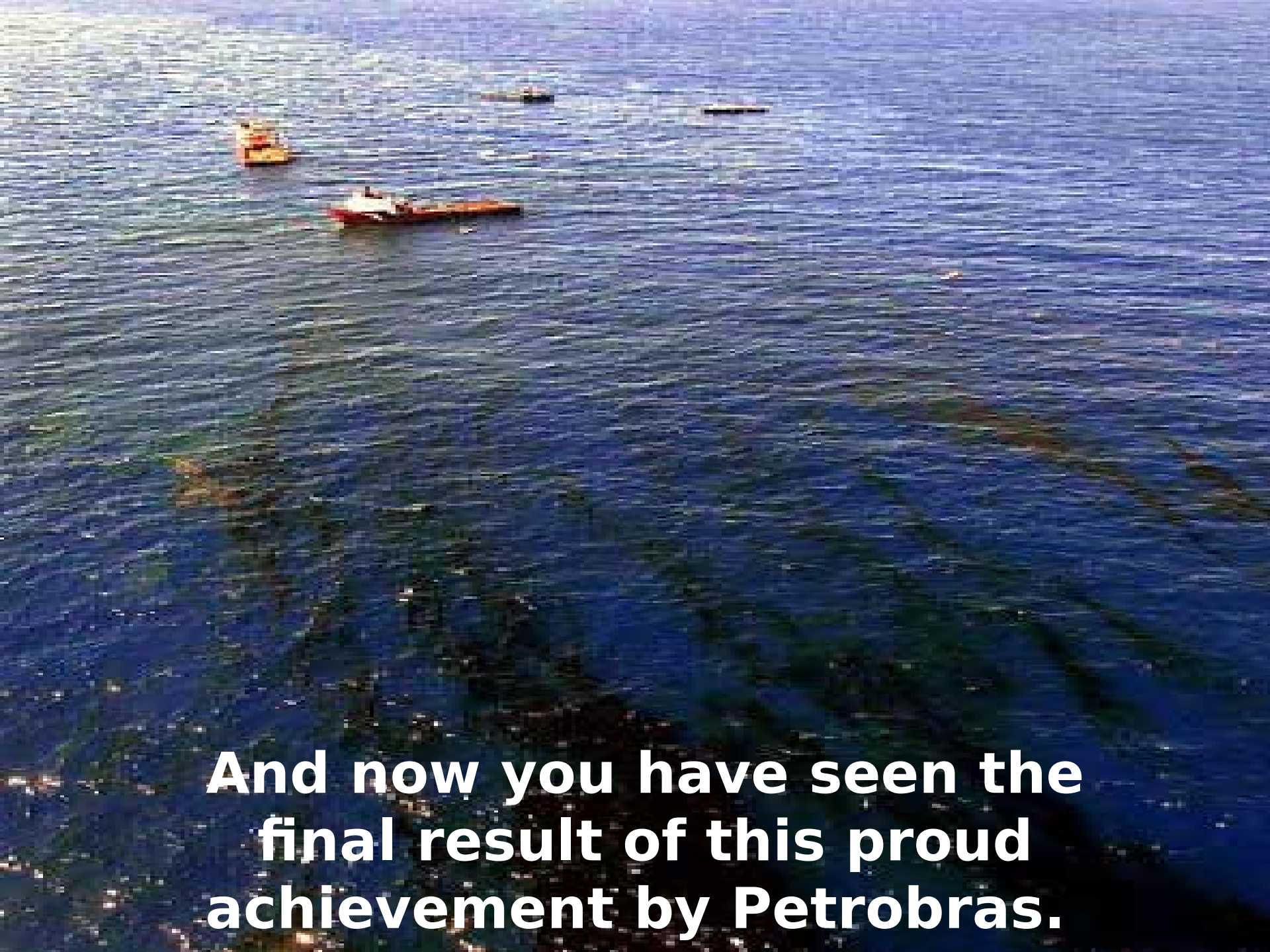
When Controls Fail…

Without effective controls, we can see:

- **<u>Loss of life</u>: USS Cole, Ranger School, Blackhawk helicopters (IRAQ), Air France Concorde**
- **<u>Loss of assets</u>: Petrobras Oil Platform, IRS computers, FBI computers & weapons**
- **Credit card abuses**
- **Visas issued inappropriately**

Quality assurance and the sinking of the largest off-shore oil platform

For those of you who
may be involved in
project cost control
(at whatever level)


And now you have seen the
final result of this proud
achievement by Petrobras.

Elements of the Process

- Key Management Controls
- Assessable Unit Managers
- Assessable Units
- Performance Agreements
- Management Control Administrators
- Management Control Plan
- Management Control Evaluations
- Material Weaknesses
- Annual Statement of Assurance

Key Management Controls

- Key controls would “break” or seriously impair the system if not in place or non-existent
- Identified by HQDA Proponents
- Available in governing regulations and require formal evaluation

Assessable Unit Manager (AUM)

- Head of assessable unit (COL/GS-15)
- Decision maker for all MCP issues
- Ensures managers understand & comply with GAO Standards
- Certifies evaluations indicating:
  - Who conducted the evaluation and when
  - What methods were used to test the controls
  - What deficiencies were detected
  - What corrective actions were taken
- Submit Annual Statement of Assurance

Performance Agreements

HQ USANATO policy requires:

- **Performance agreements of all supervisors & managers with oversight responsibilities & personnel conducting evaluations include the *explicit statements of responsibility* for management controls**
- **The statements must be specific enough**

Performance Agreements

Documenting Statements:

- **Military officers: on DA Form 67-9-1**
- **Military enlisted: on DA Form 2166-8-1**
- **"Senior System" civilians: on DA Form 7222-1**
- **"Base System" civilians: on DA Form 7223-1**

Management Control Administrator (MCA)

- Manage and administer MCP for the unit
- Advise AUMs & managers on the implementation & status of controls
- Identify training needs & perform training
- Develop & maintain MCP Plan
- Coordinate preparation of ASA
- Track Material Weaknesses
- Retain required documentation

Management Control Plan

HQ USANATO Senior Management Council:

- **Modifies HQDA Plan to fit our mission**
- **Includes KEY controls identified by HQDA**
- **Establishes command MCP Plan that defines:**
  - **WHAT functional areas will be evaluated**
  - **WHEN they are scheduled for evaluation**
  - **WHO will do them**
- **Assesses high risk areas**

Management Control Evaluations

- **Management Control Evaluation Checklists**
  (published in ARs, available at: http://www.usanato.army.mil/html/mcp.html)

- **Any EXISTING management review process**
  that assesses, tests key controls, & documents
  results (CIP, CSDP, IG Inspection, audits)

- **Commander may choose the method unless**

Conducting Evaluations

- Three basic criteria for acceptable evaluation:
  - Must assess the KEY MGMT CONTROLS
  - Must TEST the controls
    - file/document analysis
    - interview
    - direct observation
    - sampling
    - simulation
  - Must DOCUMENT evaluations (DA Form 11-2-R)
- MCAs must retain documentation

A “Material” Weakness is:

- A problem with management controls:
  they are not in place, not being used,
  or not adequate

  AND

- Needs to be reported to the next higher level of command for resolution or awareness

Material Weakness Factors

If the answer is YES to any of the below factors, it likely constitutes a Material Weakness

- Actual or potential loss of assets
- Sensitivity/magnitude of assets involved
- Impaired fulfillment of essential mission
- Current or probable adverse media
- Congressional interest
- Unreliable information
- Statutory or regulatory violations
- Impact on information security

Attack on the USS Cole

Enron's Fall

- The largest bankruptcy in history!
- Shareholders experienced evaporation of their stock value
- Banks that lent to Enron lost millions
- Jobless employees will lose retirement due to 401(K) plans invested in Enron's stock

IRS

- 2,300 missing computers!!!
- Reflection of historical poor management of money & personnel at the IRS
- OMB considering placing a limitation on the IRS budget

Fort Worth Refueling Incident

Several 7th Wing B-1B aircraft from Dyess AFB, TX, deployed to Ft Worth NAS JRB, TX, on a temporary basis while runway repairs were being made at Dyess. Local ground crews, unfamiliar with B-1 refueling procedures, filled the rear fuselage

Blackhaws' Shot Down in Iraq:

AWACS' mission crew member not fully qualified

Weapons controllers didn't understand their responsibilities to support MCC helicopters

Annual Statement of Assurance (ASA)

Required by FMFIA for all federal agencies

- **AUM's assessment of controls' effectiveness–**
  - **states "reasonable assurance" that they are**
  - **in place & effective**
- **Describes the basis for that determination**
  - **to include Leadership Emphasis, Training, & Program Execution**

AUM → CoS → DCG → HQDA → SECDEF → Congress/President

Annual Statement of Assurance (ASA)

- AUM's assessment of controls' effectiveness
- <u>Cover Memorandum</u>
  - Add command concerns, issues, etc.
  - Add good news items, initiatives, etc.
- <u>Tab A</u>, How the Assessment Was Conducted
  - Leadership Emphasis
  - Training
  - Program Execution
- <u>TAB B</u>, Material Weaknesses (new, updated

Stewardship of Our Command's Assets

All HQ USANATO personnel must:

- **Display high level of commitment toward safeguarding our assets**
- **Ensure that our assets are used effectively & efficiently**
- **Monitor controls & report those that are absent or ineffective**

<u>Key Army Incentive</u>:
If a material weakness is self-reported neither USAAA nor Internal Review will issue a <u>FINDING!</u>

Education & Training at HQ USANATO

- **HQ USANATO MCP Home Page:**
  http://www.usanato.army.mil/html/mcp.html

- **Dissemination of policies & guidance**
- **HQ USANATO "MCP 101" Guide**
- **MCAs' standard group presentations**
- **Desk-side presentations**
- **Instructions during CIP**
- **Commander's call, staff meeting**
- **MCP Public Folder under DCSRM**
- **Video, web-based training modules**

HQ USANATO MCP Home Page

MCP Web Resources

- **HQDA:**
  www.asafm.army.mil/fo/fod/mc/mc.asp
- **GAO:**
  http://www.gao.gov/special.pubs/ai00021p.pdf
- **DoD-IG:**
  http://www.dodig.osd.mil/
- **USAAA :**
  https://www.aaa.army.mil/default.htm
- **IR Journal:**
  www.asafm.army.mil/fo/fod/ir/ir-journal/ir-journal.asp

FY02 HQ USANATO MCP Milestones

- Appointed FY02 SMC, AUMs & MCAs
- Finalized 5YP & forwarded for evaluations
- Issued guidance to AUMs, MCAs, managers
- Established Bulletin Boards in battalions
- Re-established MCP web page & public folder
- Developed “MCP 101” Training Guide
- Developed cmd “Explicit Statement” policy
- Developed “HQ USANATO Circular 11-2”

Conclusion…

- It's just good management
- We do it in our jobs anyway
- Without controls:
  - People can die
  - Funding is lost
  - Property is stolen
  - Criminal activity occurs

"Anybody who safeguards, lives"

"Anybody who safeguards resources, deserves recognition"

Ernest J. Gregory

Principal Deputy to the Assistant Secretary of the Army

(Financial Management and Comptroller)

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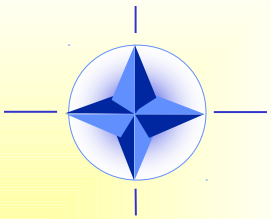
"Management controls protect resources – our dollars, our equipment, and most importantly our people. To obtain the resources that are necessary to maintain our world-class Army, we must convince the Congress that we are good stewards of the public's tax dollars"

GEN Eric K. Shinseki, Chief of Staff ***Thomas E. White, Secretary of the Army***



Questions?